ACCOUNTING, FINANCIAL MANAGEMENT, INVESTMENT, FIXED ASSET AND CAPITAL IMPROVEMENT PROJECT POLICIES

Introduction

The City of Beaumont has adopted accounting, financial management, investment, fixed asset, and capital improvement policies to provide the framework for managing the City's financial resources. These policies are designed to:

1. Contribute to the confidence in the City operations and the commitment of the City Council, City Manager and staff to sound financial practices.

2. Save time and energy of the City Council and appointed officials. Once certain financial decisions are made at the policy level, those policies may be applied to individual situations and issues.

3. Direct attention of the City Council, City Manager, department heads and the public to the City's total financial condition and link day-to-day operations with long-range financial planning.

4. Contribute to the stability and expeditious handling of the City's financial affairs. The City Council, City Manager and department heads may change over time, but sound financial accounting policies will be in existence to guide whoever holds these positions.

Accounting Policies

(Strike Outs and Italics are Proposed Amendments)

Introduction

The City's accounting policies are the specific principles, guidelines, bases, conventions, rules, regulations and practices applied by the City of Beaumont in accounting for the collection and disbursement of financial resources and in preparing and presenting accurate financial statements of fiscal transactions. Sound and practical accounting policies are the foundation of accurate accounting and reporting of financial information. The City's accounting policies help ensure that the institutional memory of how and why things were done in the past are not lost and serve as an important tool to capture how things are currently done. Accounting policies provide guidelines to support daily operations and sound administrative and policy decision making.

Scope

The City's accounting policies apply to all personnel, departments, divisions and offices of the City government as well as all associated accounting funds under the direct authority of the City of

Beaumont. These accounting funds include, but are not limited to, the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds, Debt Service Funds, Capital Projects Funds, Private-Purpose Trust Funds and Agency Trust Funds. These accounting policies are also applicable to the City's blended component units, including the Successor Agency to the Beaumont Redevelopment Agency, Beaumont Utility Authority, Beaumont Conservation Authority and Beaumont Public Financing Authority.

Responsibility

The City Manager is ultimately responsible for the City's implementation and compliance with these policies, unless the City Council authorizes exceptions. Under the direction of the City Manager, the Finance Director will review, develop and implement a system of processes and procedures to ensure compliance with these policies throughout the entire organization. The City Manager will work with the Finance Director to ensure these policies are updated on a timely basis.

Accounting Standards

The annual budget and audited financial statements of the City of Beaumont are prepared in conformity with Generally Accepted Accounting Principles (GAAP) as applicable to government entities. Generally Accepted Accounting Principles (GAAP) are national accounting standards adopted by the Governmental Accounting Standards Board (GASB). The Governmental Accounting Standards Board (GASB) is the nation-wide accepted standards body for establishing governmental accounting and financial reporting principles.

The City also complies with Financial Accounting Standard Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARBs) of the Committee on Accounting Procedure.

Beaumont's budget and audited financial statements present the financial position of the City government and its blended component units. Blended component units are entities for which the City is considered to be financially accountable. This includes the Successor Agency to the Beaumont Redevelopment Agency, Beaumont Utility Authority, Beaumont Conservation Authority and the Beaumont Public Finance Authority. These organizations are technically separate legal government entities, but are in substance part of the City of Beaumont' government operations. The City Council acts as the board of directors for the Beaumont Redevelopment Agency, Beaumont Utility Authority, Beaumont Conservation Authority and the Beaumont Public Financing Authority. City employees serve as the staff for all four of these governmental units. The budget and other financial information from these government entities are combined with the budget and financial data of the City of Beaumont. The Beaumont Redevelopment Agency, Beaumont Utility, Beaumont Conservation Authority and the Beaumont Public Financing Authority have a June 30 date for the end of their fiscal years.

Measurement Focus

The accounting and reporting treatment applied to a Fund is determined by its **measurement focus**. All Governmental Funds (General Fund, Special Revenue Funds and Debt Service Funds) are accounted for on a **flow of current financial resources measurement focus.** This means that only current assets and current liabilities are generally included on their balance sheets. Governmental Fund operating statements and budgets present increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in net current assets.

All Proprietary Funds (Internal Service Funds and Enterprise Funds) and all Fiduciary Funds are accounted for on a **flow of economic resources measurement focus**. This means that all assets and all liabilities (whether current or non-current) associated with this activity are included on their balance sheets. Their reported fund equity (net total assets) is segregated into contributed capital and retained earnings components. Proprietary Funds operating statements present increases (revenues) and decreases (expenses) in net total assets.

Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the City's financial statements. The **Basis of Accounting** relates to the timing of revenue recognition in the City's financial statements regardless of Measurement Focus applied. The accounting basis in the City's annual budget is the same as accounting basis in the City's annual audited financial statements.

1. Governmental Fund Types (Tax Supported Activities) The modified accrual basis of accounting is used by the City of Beaumont to apply revenues to expenditures in its Governmental Funds. Under the modified accrual basis of accounting revenues are recorded when they become measurable and available to pay for expenditures of the current period. "Measurable" means that the amount of the transaction can be determined. "Available" means collectible within the current period or soon enough thereafter to pay liabilities.

Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the providers have been met.

Taxes, intergovernmental revenues, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual, and are therefore recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current period is considered to be susceptible to the accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when cash is received by the City.

The City of Beaumont considers all revenues available if they are collected within sixty (60) days after the end of the fiscal year. Revenues that are accrued include property taxes, franchise fees, interest revenue and charges for service. Sales taxes and motor vehicle license fees collected and held by the state at year end on behalf of the City are also recognized as revenue. Licenses, permits and fines are accrued when received as they are not measurable until received in cash. Investment earnings are recorded as earned. Other receipts and taxes become measurable and available when cash is received by the government and are recognized as revenue at that time.

Entitlements and shared revenues are recorded at the time of receipt or earlier if accrual criteria are met. Expenditure-driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met.

The City reports deferred revenue on its balance sheet. Deferred revenues arise when potential revenue meets the asset recognition criteria but does not meet both the "measurable" and "available" revenue criteria for recognition in the current period. Deferred revenues also arise when the City receives resources before it has a legal claim to them, such as when grant monies are received prior to the incurring of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the City has a legal claim to resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

2. Proprietary Fund Types (Business-Type Activities) and Fiduciary Fund Types (Resources Held in Trust). Expenditures are generally recognized in Enterprise Funds, Internal Service Funds, Private Purpose Trust Funds, and Agency Trust Funds under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due. Certain compensation absences and claims and judgments are recognized when the obligations are expected to be liquidated with expendable available financial resources. Under this method revenues are recorded when earned and expenses are recorded at the time liabilities are incurred.

Assets, Liabilities and Fund Equity

1. Cash and Investments. Cash and cash equivalents represent the City's cash bank accounts including, but not limited to, certificates of deposit, money market funds and cash management pools for reporting purposes. Additionally, investments with maturities of three months or less when purchased are included as cash equivalents.

The City maintains a cash and investment pool that is available for use by all Funds. Interest earnings as a result of this pooling are distributed to the appropriate funds based on month-end cash balances in each fund. Cash is divided into three risk levels in accordance with standards that have been developed by the Governmental Accounting Standards Board (GASB) in Statement No. 3:

A. Category 1 Investments. Insured or collateralized investments with securities held by the City of Beaumont or by its agent in the City's name.

B. Category 2 Investments. Collateralized investments with securities held by the pledging financial institution's trust department or agent in the City's name.

C. Category 3 Investments. Uncollateralized investments. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the City of Beaumont' name.

In accordance with Governmental Accounting Standards Board (GASB) 31, all City investments are stated at fair value. Fair value is based on the quoted market prices as of the valuation date. Aside from investments clearly identified as belonging to a specific fund, any unrealized gain/loss resulting from the valuation will be recognized within the General Fund to the extent cash and investments' balance exceeds the cumulative value of those investments subject to Governmental Accounting Standards Board (GASB) 31.

The fair value of the City's investment in the Local Agency Investment Fund (LAIF) that is regulated by California Government Code Section 16429 is reported in the City's financial records and financial statements at amounts based on the pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which are recorded on an amortized cost basis.

2. Internal Controls. The internal control structure of the City of Beaumont is designed to ensure that the assets of the City are protected from loss, theft, or misuse. It is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls within the City of Beaumont address the following issues:

A. Control of Collusion. Collusion occurs where two or more employees work in conjunction to defraud the City. The City has an organizational structure and operational policies and procedures that are designed to prevent collusion.

B. Separation of Transaction Authority from Accounting and Record Keeping. The City has segregated job duties so that the person who authorizes or performs the transactions is different from the person who records or otherwise accounts for the transaction. The City's Finance Department has divided duties and record keeping among employees with a Finance Director overseeing day-to-day operations.

C. Custodial Safekeeping. Funds collected by the City are deposited into the bank each day. Any small amounts of cash or checks held at the end of the day are placed in a safe in a locked room. Securities purchased from any bank or dealer (including appropriate collateral) for short-term or long-term cash investments are placed with an independent third party for custodial safe keeping.

D. Avoidance of Physical Delivery of Securities. The City avoids the physical delivery of securities. Book-entry securities are easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

E. Clear Delegation of Authority to Subordinate Staff Members. Staff members in the Finance Department have a clear understanding of their authority and responsibilities to avoid improper actions. Clear designation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

F. Written Confirmation of Transactions for Investments and Wire Transfers. Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions are supported by written communications and approved by the authorized supervisor. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.

G. Wire Transfer Agreement with Lead Bank. The City has a wire transfer agreement with its bank that addresses controls, security provisions and responsibilities of each party making and receiving wire transfers.

3. Accounts Receivable. Billed but unpaid services provided to individuals or non-Government entities are recorded as "accounts receivable." The Proprietary Funds include a year-end accrual for services through the end of the fiscal year, which have not yet been billed. Accounts receivable are reported net of an allowance for uncollectible accounts in the Enterprise Funds.

4. Compensated Absences. It is the City's policy to permit employees to accumulate earned (but unused vacation), sick pay and compensatory time benefits up to the limits imposed in the City of Beaumont Personnel Manual. Vested or accumulated vacation, holiday and sick leave along with any compensatory time that is expected to be paid with expendable available financial resources is reported as an expenditure and fund liability in the Governmental Fund that will pay for it. Amounts not expected to be liquidated with expendable available financial resources are reported in the General Long-Term Debt Account Group. No expenditure is reported for these amounts. Vested leaves in Enterprise Funds are recorded as an expense and liability as the benefits accrue.

5. Long-Term Liabilities. The City reports long-term debt of Governmental Funds at face value. Long-term liabilities for all Governmental Funds and Fiduciary Funds do not affect net current assets and are not included on their respective balance sheets in previous years. Long-term liabilities of proprietary and non-expendable trust funds are accounted for in the respective funds.

6. Inventory. Inventory is valued at the cost that approximates market, using first-in, first-out (FIFO) method. The consumption method is used to account for the inventory of Governmental Funds including the General Fund, Special Revenue Funds and Capital Projects Funds. The value of the City's office supply inventory is not considered material and as a result, no inventory value is shown in the City's financial statements or in the annual budget.

7. Bond Discounts. In Governmental Funds, bond premiums, discounts, and issuance costs are recognized in the current period. Bond discounts are presented as a reduction of the face amount of the bonds payable. Issuance costs are reported as an expenditure of the period. For Proprietary Funds, bond premiums and discount, with issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Issuance costs are reported as deferred charges.

8. Called Developer Bonds. Revenues from called developer bonds arising from contract Defaults are deferred and recognized as revenues when the related costs to complete the project are incurred by the City.

9. Unappropriated Fund Balance and Unreserved Cash and Investments . The Unappropriated Fund Balance in Governmental Funds and Unreserved Cash and Investments balances in Proprietary Funds indicate that portion of Fund Equity which is available for appropriation in future periods. Restricted Fund Balances or Reserved Fund Equity indicates that a portion of Fund Balance or Fund Equity has been segregated for specific purposes or is not available for appropriation. Reservations of retained earnings are limited to outside third-party restrictions.

10. Contributed Capital. Contributed capital are non-cash assets recorded in Enterprise Funds and primarily represents infrastructure such as water lines, sewer lines or assets received from other funds, developers, or customers. Contributed capital designations in the Enterprise Funds cannot be spent for operating or capital needs.

Taxes and Other Significant Revenues

1. Property Taxes. Riverside County is responsible for the assessment, collection and apportionment of property taxes for all taxing jurisdictions. Property tax is imposed on real property (land and permanently attached improvements such as buildings) and tangible personal property (moveable property) located within the state. The California property tax is ad valorem, based on the value of the property rather than on a fixed amount or benefit to the property or persons. Intangible assets and rights are not subject to taxation except to the extent that they are necessary to put real property interests to beneficial or productive use. Taxable property includes land, improvements, and other properties that are accounted for on the property tax rolls, which are primarily maintained by the Riverside County Assessor. Tax rolls contain an entry for each parcel of land, including parcel number, owner's name and value.

The amount of the tax is based on an annually determined assessed valuation. The property tax is paid to the county tax collector and allocated to local taxing agencies. The property tax is guaranteed by placing a lien on the real property. For this reason, types of properties are distinguished as secured or unsecured.

Certain special exemptions to the standard assessment rules are provided in the State Constitution and state law. These exemptions include federal and state owned property, municipal owned property except property outside the legal boundaries of the agency, homeowners property tax exemption, property owned, irrevocably dedicated to religious, hospital, cemeteries and schools and the California Air Patrol; Williamson Act; disabled veterans; and other exemptions.

Property taxes are levied in equal installments on November 1 and February 1. They become delinquent respectively on December 10 and April 10. The lien date is March 1 of each year. Property taxes are accounted for in the City of Beaumont General Fund. The City is permitted by Article XIIIA of the State of California Constitution (known as Proposition 13) to levy a maximum of $1.00 per $100 of full cash value. Property tax revenues are recognized when they become measurable and available to finance current liabilities. The City considers property taxes as available if they are collected within 60 days after the end of the fiscal year. Property tax on the unsecured roll are due on the March 1 lien date and become delinquent if unpaid on August 31. However, unsecured property taxes are not susceptible to year-end accrual. Taxes on individual pieces of property may be delinquent up to five years before the property is sold for delinquent taxes.

Under state statute, the County Treasurer, acting as a tax collector, must settle and disburse all current tax collections to all taxing units by the end of March following the taxing year. Delinquent taxes are collected throughout the year and dispersed to the taxing units on a routine basis.

The City receives property taxes under the "Teeter Plan." The Teeter Plan allows cities to collect 100% of assessed taxes each year in lieu of receiving only those taxes collected by the County. Riverside County receives the penalties and interest when delinquent taxes are collected in future years. The County benefits by charging interest substantially higher than market rates when the delinquent taxes are collected.

2. Sales and Use Taxes. California sales tax is imposed on retailers for the privilege of selling tangible personal property. A portion of the tax is a state tax and a portion is locally imposed. The tax base for the sales tax is the retail price of tangible personal property. Tangible personal property is any material asset, such as household goods and business equipment which is readily moveable and not permanently attached to real property. Sales tax applies to a transaction if (1) the seller's registered place of business in California participates in the sale and (2) title to the goods passes to the customer within the state.

The use tax complements the sales tax. It is imposed on the storage or use, or other consumption in California of property purchased from a retailer in cases where the sales tax is not collected. While sales tax is imposed on the seller, the use tax is imposed on the purchaser and at the same rates as the sales tax. The use tax was first imposed in 1935, in order to discourage buying from out of state solely for the purpose of avoiding state sales tax, and thereby placing California retailers at a competitive disadvantage.

Sales and use taxes are collected by the State Board of Equalization and remitted to the City quarterly. Sales and use taxes are recorded as revenues when received by the State Board of Equalization.

3. Franchise Fees. Franchise fees collected by Southern California Edison and The Gas Company are remitted to the City each year on April 15. Cable television franchise fees from Time-Warner are sent to the City quarterly and franchise fees from Waste Management are remitted monthly to the City.

Chart of Accounts

The City Chart of Accounts is a carefully arranged system classifying financial transactions for budgeting, accounting and reporting purposes. The Chart of Accounts does the following:

1. Defines each account in order to assure uniform treatment in the classification, recording and summarization of accounting transactions.

2. Provides a consistent basis for reporting accounting financial and related information to facilitate effective and meaningful communications with the public, bond investors, City departments City Manager and City Council.

3. Provide flexibility for other reporting needs as required for ongoing operations of the City.

Periodic Journal Entries

The Finance Director is responsible for seeing that the following journal entries are prepared and posted as appropriate to the General Ledger.

1. Monthly Postings to General Ledger. Monthly postings to the General Ledger include, but are not limited to, payroll related postings, including deferred compensation and contributions to the California Public Employees' Retirement System, tax receipts, wire transfers, bank account charges, investment earnings, transfers between funds, voided and non-sufficient fund checks, budget appropriation changes, reconciliation adjustments and miscellaneous entries including reclassifications.

2. Annual Postings to General Ledger. Annual postings to the General Ledger include, but are not limited to, accounts payable from invoices, accounts receivable from billings, grant accruals and/or deferrals, land transactions, fiscal agent activity on Community Facilities District

(CFD) bonds or other bond issues, interest on notes receivable, capital asset transactions, reimbursements due to and due from accounts, deferred revenue and other accruals as required.

~~Month End Closing of General Ledger~~

~~Month-end closing procedures including posting of monthly journal entries (including bank reconciliation entries), and pending cash disbursements, payroll and cash receipts to the General Ledger~~.

Financial Reports

The City staff prepares appropriate monthly financial statements reflecting the operations of individual Funds for internal use by the City Council, City Manager, department heads and the general public. The City adheres to a policy of full and open public disclosure of all financial documents.

Independent Audits

An independent audit of the City's financial statements is conducted each year by an independent Certified Public Accounting firm. The City also participates in a number of federal and state assisted grant programs, which are subject to annual financial, and compliance audits.

Financial Management Policies

(Adopted by the City Council on April 5, 2016)
(Strike Outs and Italics are Proposed Amendments)

Introduction

The City of Beaumont is accountable to the community for the use of public dollars. Municipal resources will be used wisely to ensure adequate funding for the services, public facilities and infrastructure necessary to meet the community's present and future needs. Financial management policies serve as the blueprint to achieve the fiscal stability and accountability required to meet the City's goals and objectives.

Scope

The City's financial management policies apply to all personnel, departments, divisions and offices of the City government as well as all associated accounting funds under the direct authority of the City of Beaumont. These accounting funds include, but are not limited to, the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds, Debt Service Funds, Capital Projects Funds, Private-Purpose Trust Funds and Agency Trust Funds. These financial management policies are also applicable to the City's blended component units, including the Successor Agency to the Beaumont Redevelopment Agency, Beaumont Utility Authority, Beaumont Conservation Authority and Beaumont Public Financing Authority.

Responsibility

The City Manager is ultimately responsible for the City's implementation and compliance with these policies, unless the City Council authorizes exceptions. Under the direction of the City Manager, the Finance Director will review, develop and implement a system of processes and procedures to ensure compliance with these policies throughout the entire organization. The City Manager will work with the Finance Director to ensure these policies are updated on a timely basis.

Financial Policy Goals

The objectives for comprehensive management policies are to:

1. Guide City Council and City Management decisions that have significant fiscal impact.

2. Support the planning for financial sustainability and long-term needs.

3. Maintain and protect City assets and infrastructure.

4. Set forth operating principles that minimize the financial risk in providing City services.

5. Optimize the efficiency and effectiveness of services to reduce the costs and improve service quality.

6. Employ balanced and fair revenue policies that provide adequate funding for desired

programs.

7. Promote sound financial management by providing accurate and timely information on the City's financial condition to the City Council and community.

8. Maintain and enhance the City's credit ratings and prevent default on any municipal financial obligations.

9. Ensure the legal and ethical use of financial resources consistent with Council policy through an effective system of internal controls.

10. Promote cooperation and coordination within the City, and other governments and with the private sector in the financing and delivery of services.

11. Provide the appropriate level of accountability in the use of public resources.

Affiliated Agencies

If agencies have been created through Council action, intergovernmental agreements, and state and federal laws, they should be managed with the same financial standards as City agencies. To protect the City's fiscal status and avoid an adverse effect on the City, affiliated agencies will be accountable for financial compliance and reporting standards as described in the City's Financial Management Policies. The City may audit financial records or performance data to ensure funds are spent in accordance with Council directions and policies. Affiliated agencies include, but are not limited to, agencies created by Council action, agencies with leadership appointed by the City Council and agencies that receive a majority of funds from the City.

Annual Budget

The annual budget is the primary mechanism for the implementation of City Council policies and the achievement of their goals and objectives. The budget is a policy document, operations guide, financial plan and a communications device. It is the single most important means of setting spending policies and priorities of the City. It constitutes approval by the City Council of service levels and operating programs and provides resources to finance them. Expenditures must be kept within total appropriations for all Accounting Funds.

Budget Goals

The City will develop and implement a budget process that will:

1. Make prudent use of public resources.

2. Include financial forecast information for resources, uses and ending fund balances to ensure that the City is planning adequately for current and future needs.

3. Provide adequate opportunity for public review and input.

4. Provide adequate opportunity for City Council review and deliberations.

5. Provide information on accomplishments and service levels vis-a-vis community needs.

6. Comply with City Code, State of California Local Budget Law, bond covenants and other promulgations.

The City Manager will develop and present a proposed City budget to the Mayor and City Council for consideration and adoption. The City Manager's proposed budget will opine on the short and long-term financial condition of the City, identify policy and financial and service issues, identify any use of one-time funds to support ongoing operations or key changes from previous years, identify funding requirements and sources of funds, provide supplemental information on programs and service areas, include budget and performance details for all City organizations and related recommendations to the City's vision and goals.

The Finance Department will issue guidelines and rules for the preparation and review of the department budget requests to the Mayor and City Council, including a proposed annual budget process and calendar. The proposed process and calendar will support community input and Council deliberations

Budget Appropriations

All Accounting Funds are included in the annual budget and all revenues and other financing sources are appropriated by the City Council each fiscal year in the annual budget. All Accounting Funds included in the City's annual audited financial statements are reviewed by the City's independent certified public accountants. The accounting basis in the City's annual budget is the same as the accounting basis used by the City's annual audited financial statements. Annual operating budgets in the General Fund and Enterprise Funds are carefully reviewed to insure that budget appropriations are conservative because the City feels government units function more efficiently under conservative budgets than where excess funds are made available.

Appropriations Limit

Under Article XIIIB of the California Constitution (the GANN Spending Limitation Initiative), the City is restricted as to the amount of annual appropriations from the proceeds of taxes, and if proceeds of taxes exceed allowed appropriations, the excess must be either refunded to the State Controller or returned to the taxpayers through revised tax rates, revised fee schedules or other refund arrangements.

Proposition 218

Proposition 218, approved by the voters in November 1996, regulates the City's ability to impose, increase and extend taxes, assessments, and fees. Any new, increased, or extended taxes, assessments, and fees subject to the provisions of Proposition 218 require voter approval before they can be implemented. Additionally, Proposition 218 provides that these taxes, assessments, and fees are subject to the voter initiative process and may be rescinded in the future by the voters. Therefore, the City's ability to finance the services for which the taxes, assessments and fees are imposed may be significantly impaired. Under Proposition 218:

1. Revenues derived from a property related fee must not exceed the funds required to provide the property related service. (The total cost limitation)

2. Revenues derived from the fee must not be used for any purpose other than for that which the fee is imposed. (The proportional cost limitation)

3. Fees may not be imposed for a service unless the services is actually used by, or immediately available to, the owner of the property subject to the fee. Fees based on potential or future use of a services are not permitted, and stand-by charges must be classified as assessment subject to the ballot protest and proportionality requirements for assessments. (The future services prohibition)

4. No fee or charge may be imposed for general governmental services, such as police, fire, ambulance, or libraries, where the service is available to the public in substantially the same manner as it is to property owners. (The general government service prohibition)

A public agency has the burden to prove compliance with these provisions if a fee is challenged in court.

Budget Control and Monitoring

The City Council appropriations and control points will be at the department level within each accounting fund. These City Council adopted appropriations and employee counts cannot be exceeded without City Council approval. The City Manager will have the authority to amend budgets within a departmental appropriation but changes in employee counts must be approved by the City Council. The Finance Department will maintain a system of tools for departments to manage their budgets and for financial monitoring and control of the City's budget during the fiscal year. This system will provide the departments, Mayor and City Council with information on revenue, expenditures and budget performance at both the department and fund level. The system will include provisions for amending the budget during the year in order to comply with this policy and State of California budgetary statutes.

The City Manager, through the Finance Department, will periodically report to the City Council financial status reports on revenues and expenditures to date, and the estimated year-end fund balances. ~~At the start of FY2016-2017~~, the City Manager will, on a quarterly basis, review all City financial operations, report to Council on financial results and recommend financial actions necessary to meet the adopted budget's financial planning goals.

The mid-year budget ~~monitoring~~ report, audited financial statements, audit opinion and management letter will be presented to the Mayor and City Council for review and discussion as an action item *on a City Council agenda*. Any additional *financial* resources, whether additional projected revenues produced them or higher beginning fund balances, should be set-aside for the next budget cycle. Any negative financial results should be highlighted and a proposed plan of action should be provided to the ~~Mayor and~~ *City* Council for review and approval. General Fund discretionary resources that exceed budgeted amounts should be added to the General Fund contingency, except for funds allocated to infrastructure maintenance or replacement.

Review Council Actions

The City Manager, through the Finance Department, will review any proposed City Council actions. The objective of these reviews will be to ensure compliance with the City's budget direction and identify financial and service issues for the Council. The Finance Department will identify financial and service issues for the City Council. The Finance Department will establish and issue procedures and forms to submit fiscal impact statements for proposed Council actions.

Additional Operating Budget Direction

1. Balanced Budget. Financial resources shall be equal to or exceed *expenditures* in each accounting fund. Each City fund must identify on-going *financial* resources that at least match expected ongoing requirements. One-time resources and non-recurring ending balances may either be applied to reserves or used to fund one-time expenditures; they will not be used to fund ongoing programs, except as provided in Section 2. Each year the Finance Director will provide the City Council with the amount of discretionary revenue that is estimated to be non-recurring for the General Fund.

2. One-time Funds. One-time funds can be used for ongoing expenditures only as a plan for: (1) Transitioning to a permanent funding source, (2) leading to organized program elimination, or (3) as part of verifiable plan *to address an* existing a recessionary period. Scenario 3 should be documented in the City's multi-year financial forecast.

3. General Discretionary Revenues. Unless otherwise explicitly stated by the Mayor and City Council, the City will not dedicate discretionary revenues for specific purposes in the General Fund. This will preserve the ability of the Mayor and Council to determine the best use of available revenues to meet changing service requirements.

4. Transfers Between Funds. A schedule of all transfers between funds will be identified, explained and appropriated in the Proposed and Adopted Budget. Any additional *budget* transfers *between accounting funds* will require City Council action.

5. Efficiency and Effectiveness. The City will optimize the efficiency and effectiveness of its services to reduce costs and improve service quality. The City will coordinate its service delivery with other applicable public and private service providers and seek the most cost effective method for service delivery.

6. Self-Supporting/Full Cost Recovery Basis. The City will attempt to recover the costs of services providing a private benefit to users through the imposition of user fees and charges. The fees and charges will be based on cost accounting standards consistent with state of federal law when applicable. Fees and charges should include full costs i.e. direct, indirect, depreciation, interest charges, etc. and the Finance Director will ensure an annual user fee and charges schedule is regularly updated and approved by Council.

7. Recovery of Indirect or Overhead Costs. The City will endeavor to recover indirect or overhead costs through their allocation towards the calculation of user fees and charges or inter-fund charge. However, a reasonable cost allocation methodology must be used consistent with Generally Accepted Accounting Principles (GAAP).

8. Contingencies. The City will budget a contingency account for each operating fund adequate to address reasonable but unforeseen requirements within the fiscal year.

~~**9. General Fund Reserves or Ending Fund Balance**. The City will show adequate progress towards increasing reserves or Unassigned Ending Fund Balance ultimately to 16% of the General Fund Operating Budget. This is a long-term goal. NOTE: The Government Finance Officers Association recommends, at a minimum, that general purpose governments, regardless of size, maintain unrestricted fund balance in their General Fund of no less than two months of regular~~

~~General Fund of no less than two months of regular General Fund operating revenues or regular General Fund operating expenditures.~~

~~**10. Enterprise Reserves or Ending Fund Balance.** The City will show adequate progress towards increasing Enterprise Fund reserves or Unassigned Fund Balance ultimately to 25% of the Enterprise Fund Balance.~~

11. Unexpended Appropriations at the End of the Fiscal Year. *Unexpended appropriations cannot be used in subsequent fiscal years unless re-appropriated by the City Council.*

Fund Balances In Governmental Funds and Cash and Investments Balances in Enterprise and Fiduciary Funds.

1. Definition and Purpose.

A. Governmental Funds. *Accountants employ the term "Fund Balance" to describe the net assets of Governmental Funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net assets of Governmental Funds calculated on a government's budgetary basis. In both cases, "Fund Balance" is intended to serve as a measure of the financial resources available in a Governmental Fund. It is essential the City of Beaumont maintain adequate levels of fund balance to provide working capital, mitigate current and future risks (e.g. revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are also a crucial consideration in long-term financial planning.*

B. Enterprise and Fiduciary Funds. *The "Cash and Investment Fund Balance" is that portion of fund equity that can be used for operating, capital and debt service expenditures, and is intended to serve as a measure of the financial resources available in an Enterprise Fund. It is essential the City of Beaumont maintain adequate levels of cash and investment fund balances to provide working capital, mitigate current and future risks (e.g. revenue shortfalls and unanticipated expenditures) and to ensure stable utility rates. Cash and investment fund balance levels are also a crucial consideration in long-term financial planning.*

Credit rating agencies carefully monitor levels of fund balance in a government's General Fund to evaluate a government's continued creditworthiness. Those interested primarily in a government's creditworthiness or economic conditions are likely to favor higher levels of fund balance. Opposing pressures often come from employee unions, taxpayers and citizens' groups, which may view high levels of fund balance as "excessive."

2. Classification of Governmental Fund Balances. *Governmental Fund balances are classified into the following categories:*

A. Nonspendable Fund Balances. *Non-Spendable Fund Balances consist of items that cannot be spent because they are not in spendable form, such as prepaid items and inventories, items that are legally or contractually required to be maintained intact, such as principal of an endowment or revolving loan funds.*

B. Restricted Fund Balances. *Restricted Fund Balances encompass the portion of net fund resources subject to externally enforceable legal restrictions. This includes externally imposed restrictions by creditors, such as through debt covenants, grantors, contributions, laws or regulations of other governments, as well as restrictions imposed by law through constitutional provisions or enabling legislation.*

C. Committed Fund Balances. *Committed Fund Balances encompass the portion of net fund resources, the use of which is constrained by limitations that the government imposes upon itself at its highest level of decision making, normally the governing body through City Council resolutions, etc., and that remain binding unless removed in the same manner.*

D. Assigned Fund Balances. *Assigned Fund Balances encompass the portion of net fund resources reflecting the government's intended use of resources. Assignment of resources can be done by the highest level of decision make or by a committee or official designated for that purpose. The City Council has authorized the City Manager for that purpose.*

E. Unassigned Fund Balances. *This category is for any balances that have no restrictions placed upon them.*

3. Fund Balance Policy Considerations. *In establishing a policy governing the level of unrestricted (unreserved) fund balance in governmental funds and cash and investment fund balance in its Enterprise Funds, the City Council takes into consideration the following factors:*

A. The predictability of its revenues and the volatility of its expenditures (i.e. higher levels of unrestricted (unreserved) fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile).

B. The availability of resources in other funds as well as the potential drain upon General Fund resources from other funds (i.e. the availability of resources in other funds may reduce the amount of unrestricted (unreserved) fund balance needed in the General Fund, just as deficits in other funds may require that a higher level of unrestricted (unreserved) fund balance be maintained in the General Fund.

C. Liquidity (i.e. disparity between financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained.)

D. Designations (i.e. the City of Beaumont may wish to maintain higher levels of Unrestricted (unreserved) fund balance to compensate for any portion of unrestricted (unreserved) fund balance already designated for a specific purpose).

4. Fund Balance Policies.

A. General Fund Reserves or Ending Fund Balance Policy. The City will show adequate progress towards increasing reserves or Unassigned Ending Fund Balance ultimately to 16% of the General Fund Operating Budget. This is a long-term goal. NOTE: The Government Finance Officers Association recommends, at a minimum, that general purpose governments, regardless of size, maintain unrestricted fund balance in their General Fund of no less than two months of regular General Fund of no less than two months of regular General Fund operating revenues or regular General Fund operating expenditures.

<u>B. Enterprise Reserves or Ending Fund Balance</u>. The City will show adequate progress towards increasing Enterprise Fund reserves or Unassigned Fund Balance ultimately to 25% of the Enterprise Fund Balance.

These fund balances will be maintain for the following purposes:

A. Provide sufficient working capital to avoid meeting daily cash needs to avoid using tax-anticipation notes.

B. Provide a reserve to absorb emergency expenditures caused by natural disaster such as fire, flood or earthquake.

C. Cover any unanticipated deficit resulting from a shortfall in actual revenues in a given budget year or unanticipated cuts by the State Legislature and Governor of City revenues.

When expenditures are incurred for purposes for which both restricted and unrestricted fund balances are available, the City's policy is to apply restricted fund balances first, then unrestricted fund balances as they are needed.

When expenditures are incurred for purposes where only unrestricted fund balances are available, the City uses unrestricted resources in the following order: committed, assigned, and unassigned.

When the unrestricted (unreserved) fund balance of the General Fund exceeds the amount needed for the above purposes, monies are transferred to the General Capital Projects Fund to be used for capital improvements in the City.

Restricted (reserved) fund balances in the General Fund, Special Revenue Funds, and Capital Projects Funds will be separated out and identified in the City's accounting records, financial statements, budgets and audit reports. This same policy is followed with respect to restricted amounts in the cash and investment balances of the Enterprise Funds. The purpose of this policy is to show the City Council, staff and the public what funds in these balances are unrestricted and what funds are to be used for specific purposes.

<u>Fund Management</u>

Creation of new funds or elimination of existing funds shall be done by the *Finance Department or* City Council action. A review and report by the Finance Department will be required prior to City Council action. The Finance Department will conduct an annual review and, as part of the budget, explain the purpose of each fund and assess if each fund is needed.

Departments or programs that are primarily funded by user fees and charges should be segregated into their own funds *or fund accounts* to assist in cost accounting and ensuring fees and charges are recovering an adequate portion of costs.

Enterprise Funds

Budgets for Enterprise Funds will include the required level of debt service coverage for the fund and a description of the relationship between operating *budgets* and construction *budgets*.

Financial Planning Goals

The City of Beaumont will prepare long-range financial plans to guide the Mayor and City Council in adopting the City budget and to assist the City Council in ensuring the delivery of needed services through inevitable economic cycles. The financial plans will help the Mayor, Council and community evaluate the financial impact of all programs within the regional and local economic conditions. The plans will also assist in coordinating funding needs among enterprise, special revenue and General Fund functions.

Financial planning and budgeting will be based on the following principles.

1. Revenue estimates will be prepared on a conservative basis to minimize the possibility that economic fluctuations could surprise the City and jeopardize ongoing serve delivery during the fiscal year.

2. Expenditure estimates will anticipate needs that are reasonably predicable.

3. Forecasts will rely on a common set of basic economic assumptions that will be established, updated and distributed by the Finance Department.

Financial Plans and Forecasts

Prior to the initiation of the annual budget process, the Finance Department will prepare an annual City financial assessment report. This report will include a comprehensive overview of the City's financial condition.

Five-year financial forecasts and plans will be prepared annually for the General Fund, General Fund departments, major Enterprise Funds, Special Revenue Funds and other funds that materially affect the City. Plans will be based on current service levels and funding sources, as well as anticipated changes to service levels and funding. If appropriate, the plans will identify additional resources needed to continue current service levels or identified serve adjustments.

General Fund departments will forecast and monitor their own revenues and expenditures. The Finance Department will assist departments in developing appropriate systems, will retain fiscal oversight responsibility for the entire City and will published regular financial status reports on revenues and expenditures.

Enterprise Fund and Special Revenue Fund forecasts will identify any impact on rates. The forecasts will discuss how standards for debt service coverage and operating reserves are established and maintained. Departments that manage Enterprise and Special Revenue Funds will prepare and coordinate with the Finance Department on the presentation of regular status reports on revenues and expenditures.

Capital and Other Asset Plans

The departments that are responsible for major infrastructure and utility improvements will complete 10 or 20-year master plans to support growth and replacement needs. The master plans must support and reconcile with the City's major planning documents.

The City will annually prepare a Citywide five-year Capital Improvements Plan (CIP) that provides the Mayor and City Council with an overview of the condition of its infrastructure. It should include prioritized department needs for capital replacement, additions and major maintenance, along with the potential impacts of not funding certain projects. The plan will include estimated project costs and operating costs and will identify funding sources. Staff will ensure the proposed funding is in fact an eligible source under state law. It will highlight what projects are fully funded and which ones are not.

The City will annually adopt a Capital Budget that will include estimated resources and capital expenditures based on the first year of the current Capital Improvements Plan. Other major asset categories critical to service delivery such as facilities, fleet and technology will also have master plans to ensure their timely replacement.

~~The City will preserve its current physical assets and the plan in an orderly manner for future capital investments, including the operating and maintenance costs associated with current improvements and new or additional capital improvements or major equipment~~.

The City will identify and include full costs of future maintenance needs and operating costs of new capital improvements and equipment prior to funding as part of the Capital Budget.

In general, all assets will be maintained at a level that protects capital investment and minimizes future maintenance and replacement costs. A high priority will be placed on maintenance where deferring maintenance will result in greater costs to restore or replace neglected facilities such as roads.

Each department with major capital assets will maintain accurate information on the condition and lifespan of its major assets to assist in long-term planning, such a pavement management index. Each department with major capital assets will develop replacement costs data for major assets to assist in City asset management and investment decisions.

Maintenance and operations of major capital assets should be given priority over acquisition of new assets.

Revenue Goals

1. The City will maximize and diversify its revenue base to raise sufficient revenue to support essential City services and to maintain services during periods of declining economic activity. The City's overall revenue structure will be designed to recapture some of the financial benefits resulting from City economic and community development investments. Revenue collection efforts that produce positive net income for City service delivery will be the highest budget priority.

2. Departments that primarily or exclusively operate with non-General Fund revenue will minimize reliance on General Fund support for discrete programs that are not support with fees.

Revenue Collections

The City will use all cost effective means available to collect revenues due it.

The Finance Department is responsible for ensuring all Accounts Receivable are properly pursued and accounted for, which includes an aging of each receivable and the development of a bad debt policy. The Finance Department will ensure, on an annual basis, that a report is provided to the City Council on the condition of the City's collection efforts and whether any accounts receivable and the development of a bad debt policy. The Finance Department will ensure, on an annual basis, that a report is provided to Council on the condition of the City's collection efforts and whether any accounts receivable should be written off. ~~Only Council can write off receivables~~.

The Mayor and City Council must approve any fee waivers.

Grants

The City will avoid using grants to meet ongoing service delivery needs. Prior to a grant application submittal, or acceptance of an application is not required, all grants will be reviewed by the Finance Department to ensure compliance with state, federal and City regulations. The City will also consider the relative benefits vs. costs of the grant, including what will happen after the grant ends. The City will budget expenditures for grant-funded programs only after receipt of the grant award or letter of commitment and only for the amount of the grant award to be expended within the fiscal year.

Development Impact Fee Revenues

The City seeks to recover some of the cost of growth through development impact fees assessments on new developments in the City of Beaumont. As Beaumont' population grows, the demand for the expansion of public infrastructure and the purchase of capital equipment needed to serve new development in the City increases.

State law allows (State Mitigation Fee Act, Government Code 66000 *et. seq*.) and fairness dictates that the new residents creating the need for expanded infrastructure and additional equipment capital costs should make a contribution to their acquisition in the form of development impact fees. Development impact fees are collected by the City of Beaumont for the expansion of public infrastructure and facilities and the purchase of capital equipment needed to for new development in the City. All development impact fees are deposited in separate capital projects revenue and expenditure accounts in a separate Capital Projects Fund specifically designated for the particular development impact fee. Development impact fees can only be spent for capital purchases due to growth and are not used for salary or maintenance or operation expenditures.

Unfunded Mandates

The City will oppose state or federal actions that mandate expenditures that the Mayor and City Council consider unnecessary and unfunded. The City will pursue intergovernmental funding to support the incremental cost of such mandates.

Debt Management

Public borrowing through lease-purchase agreements, general obligation (GO) bonds, revenue bonds, certificates of participation (COP) or other legal debt instruments may be in the public interest. However, the City will pursue policies that will not saddle the public with excessive public debt and will carefully scrutinize any public borrowing proposals. California currently has no constitutional or statutory debt limits for municipalities. Therefore, the City Council, City Manager or other staff members must use debt in a wise and judicious manner. Where public borrowing is considered appropriate by the City Council, it will be done in accordance with the following policies:

1. *Debt is limited to equipment purchases and major capital projects. It is not used for general operating expenses. It is the policy of the City to maintain cash balances at a sufficient level for general operating costs (those items normally funded in the City's annual operating budget and having a useful life of less than one year). Short-term securities may be issued in cases where the City's normal cash flow has been disrupted as a result of natural disaster or unexpected delays in the receipt of federal or state revenues.*

2. *The maturity date for any debt does not exceed the reasonable expected useful life of the equipment or capital improvement being financed. Generally, the City will limit long-term debt to a term not to exceed 10-15 years.*

3. *When practical, the City will develop, authorize, and issue revenue, special fee or other self-supporting debt instruments instead of General Obligation (GO) Bonds.*

4. *Coverage for revenue bonds or special fee debt instruments shall be at least 120% of annual total debt service.*

5. *The City will maintain good communication with the public and City Council regarding its financial condition.*

6. *It will regularly evaluate its adherence to its debt policies. The City will promote effective communications with bond rating agencies and others in the bond market place based on full disclosure.*

The Finance Department will report to Council on an annual basis, or whenever staff proposes to issue new debt or other long-term obligations including accrued leave liabilities, the relative debt loads being incurred by the City and related coverage ratios.

Staff will regularly use competitive processes for selecting bond counsel, financial advisors and underwriters.

Debt issuances will be packaged and planned to minimize issuance fees and interest rates.

Risk Management

The City will maintain adequate levels of insurance and implement a risk management program for public liability, workers' compensation and related exposures. The program will emphasize avoidance of risk whenever possible, funding for losses which cannot be avoided and transfer of risk to third parties whenever appropriate.

The risk management program will include the systematic and continuous identification of loss perils and exposures, the analysis of these in terms of frequency and severity probabilities, the appropriate application of sound risk control procedures and the financing of potential claims and administration costs within the City budget.

The City will use outside claims administrators.

As part of the annual budget process, staff will segregate and report ~~out~~ to the Mayor and City Council the past results of the risk management program, its relative financial status and plans for the future. Resources will be established to fund open claims liabilities, incurred but not reported (IBNR) claims and a catastrophic reserve or insurance as annual recommended by an independent actuary, or as authorized by Generally Accepted Accounting Principles (GAAP).

Interest Earnings

The Finance Department will assign interest earnings and expenses to the appropriate accounting fund based on available cash balances consistent with generally accepted accounting principles (GAAP). Investment policies will be reviewed annually and brought to the Mayor and Council for approval.

Independent Audits

Staff will regularly use competitive processes to select and rotate new independent auditors that will be responsible for the annual audit of financial records in accordance with state and federal guidelines and generally accepted auditing standards.

The Comprehensive Annual Financial Report (CAFR) or audited financial statements along with the Management Letter and responses from management, will be completed and shared with the City Council. ~~by January following the close of the fiscal year~~.

Internal Control

The City Manager, through the Finance Director, will be responsible for implementing and maintaining a comprehensive system of internal controls that provides reasonable assurance that the City is operating in a way that is consistent with the desires of the City Council. Separation of duties, administrative policies and procedures, accounting and reporting tools and an overall organizational culture will be designed and encouraged to ensure the public's assets are protected and the City's business practices are in compliance with state and federal law, sound ethical principles, best management practices and City Council policy.

Budget Adoption Procedures

Budgetary procedures for the City have been established by the City Council, which require the legal adoption of a budget for all Accounting Funds. The following are the administrative procedures followed by the City in its budgetary process. (Please also see Figure 1.)

1. Budget Preparation. Department heads meet with employees and prepare proposed operating and capital budgets, as well as department goals and performance standards for the coming fiscal year based on guidance provided by the *Finance Director*, City Manager and City Council. The department heads submit these proposed budgets along with proposed goals and performance standards to City Manager no later than March 1. The Finance Director and City Manager takes information prepared by department heads and prepares the proposed budget for the coming fiscal year for the City Council.

2. Budget Presentation. During the month of May, the City Manager, authorized by the City Council to act as the Budget Officer, submits a proposed operating and capital budgets for all Governmental, Proprietary, Fiduciary Funds and other accounting funds to the City Council for the subsequent fiscal year. The budget documents illustrate proposed financing sources along with the proposed operating and capital budget expenditures.

3. Budget Work Meetings. The *Finance and Audit Committee and* the City Council holds one or more public budget work meetings to review the proposed annual budget.

Figure 1
Annual Budget

Annual Budget Event	Time	Comments
Department heads submit proposed operating and capital budgets, goals and performance standards to City Manager.	March 1	City Manager and Finance Director take information prepared by department heads and prepare the proposed budget for coming fiscal year.
City Manager presents proposed budget to City Council.	May	Proposed operating and capital budgets for all Accounting Funds is distributed to public, press and City Council. Copies are available for public review at City Hall and on City website.
City Council reviews budget in work meetings	May and June	City Council conducts reviews during work meetings.
Public Hearing	June	Public is invited to comment on proposed annual budget. City Council makes final budget changes. City Manager incorporates changes made by City Council into final budget document.
Budget Adoption by City Council	June 30	Final budget is adopted by the City Council. Since City revenues are highly dependent upon the actions of the State Legislature, final budget adoption may be delayed in any given year until state budget is adopted.

4. Budget Public Hearing. A public hearing is held to receive comments on all aspects of the proposed budget. A notice in the local newspaper precedes the hearing. This notice is given at least ten days before the hearing and includes the time, date and place of the hearing. All budget documents are required to be available at least seven days prior to the public hearing.

5. Budget Adoption. A final budget is adopted by the City Council for the subsequent fiscal year beginning July 1. Since city revenues are highly dependent upon the actions of the State Legislature, final budget adoption may be delayed in any given year until the Governor and State Legislature adopt a state budget.

Investment Policies
(Strike Outs and Italics are Proposed Amendments)

Introduction

Investment policies and practices of the City of Beaumont are based upon state law, City ordinances, Generally Accepted Accounting Principles (GAAP), prudent money management principles and the "prudent person" standard (Civil Code Section 2261, et. seq.).

Scope

The City's investment policies apply to all personnel, departments, divisions and offices of the City government as well as all associated accounting funds under the direct authority of the City of Beaumont. These accounting funds include, but are not limited to, the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds, Debt Service Funds, Capital Projects Funds, Private-Purpose Trust Funds and Agency Trust Funds. These investment policies are also applicable to the City's blended component units, including the Successor Agency to the Beaumont Redevelopment Agency, Beaumont Utility Authority, Beaumont Conservation Authority and Beaumont Public Financing Authority.

Responsibility

The City Manager is ultimately responsible for the City's implementation and compliance with these policies, unless the City Council authorizes exceptions. Under the direction of the City Manager, the Finance Director will review, develop and implement a system of processes and procedures to ensure compliance with these policies throughout the entire organization. The City Manager will work with the Finance Director to ensure these policies are updated on a timely basis.

Investment Policy Goals

The City has four primary goals in the investment of public Funds. They are:

1. Rate of Return. Achieve a reasonable rate of return while minimizing the potential for capital losses arising from the changes or issuer default.

2. Daily Cash Flow. Meet the daily cash flow needs of the City of Beaumont.

3. Compliance. Comply with City ordinances and the laws of the State of California regarding the investment of public funds.

4. Investment Records. Maintain accurate complete investment accounting records.

5. Financial Reports. Prepare reliable financial reports *each quarter* of the investment portfolio for the City Manager, City Council and the public.

Pooling of Funds

Except for cash in certain restricted and special funds, the City of Beaumont consolidates cash balances from all funds to maximize investment earnings. The City schedules its collection of receipts, deposits of funds and disbursements of monies to ensure maximum availability of cash for temporary investment purposes. Investment income is allocated to the various Funds based on their respective participation and in accordance with Generally Accepted Accounting Principles (GAAP).

Investment Objectives

The primary objectives (in order of priority) of the City investment activities are the safety of principal and preservation of capital, liquidity, and yield.

1. Safety of Principal and Preservation of Capital. Safety of principal and preservation of capital are the foremost objectives of the investment program. Investments are undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective is to mitigate credit risk and interest-rate risk.

A. Credit Risk. The City of Beaumont will minimize credit risk, the risk of loss due to the failure of the security issuer or backer by:

(1) Limiting investments to the safest type of securities.

(2) Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with whom the City of Beaumont will do business.

(3) Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

B. Interest Rate Risk. The City of Beaumont will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:

(1) Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity.

(2) Investing operating funds primarily in shorter-term securities or with State and local government investment pools.

2. Liquidity. The investment portfolio remains sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrently with the City's cash needs to meet anticipated demands (static liquidity). A portion of the portfolio also may be placed in money market mutual funds or Local Government Investment Pools (LGIP's) which offer either same-day or next-day liquidity. Furthermore, since all possible cash demands cannot be anticipated, the portfolio consists of largely of securities with active secondary or resale markets (dynamic liquidity).

3. Yield on Investments. The investment portfolio is designed with the objective of attaining a market rate of return throughout the budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs of the City. Return on investment is of secondary importance compared to the safety and preservation of capital and liquidity objectives described above. The core investments are limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Securities shall not be sold prior to the maturity with the following exceptions:

A. Loss of Principal. A security with declining credit may e sold early to minimize loss of principal.

B. Security Swap. A security swap would improve the quality, yield, or target duration in the portfolio.

C. Liquidity. Liquidity needs of the portfolio require that the security be sold.

Standards of Care

1. Prudence. The standard of prudence used by investment officials is the "prudent" person standard (Civil Code Section 2261, et. seq.) and is applied in the context of management an overall investment portfolio. Investment officers acting in accordance with written procedures and this overall investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and sale of securities are carried in accordance with the terms of this policy.

Investments are made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

2. Public Trust, Ethics and Conflicts of Interest. Investment officials recognize that the investment portfolio is subject to public review and evaluation. The overall program is designed and managed with a degree of professional that is worthy of the public trust.

Officers and employees involved in the investment process will refrain from personal business activity that could be conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial investment decisions. Employees and investment officials will disclose any material interest in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employees and officers will refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City of Beaumont.

3. Delegation of Authority. Authority to manage the City's investment program is granted to the City Manager and his or her designee, hereinafter referred to the "Investment Officer," Responsibility for the operation of the investment program is hereby delegated to the investment officer, who shall act in accordance with this investment policy.

Authorized Financial Dealers and Institutions

The City transacts business with banks and savings and loans, and with investment securities dealers in compliance with the City's investment policy. The Finance Department will maintain a list of financial institutions authorized to provide investment services. All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

1. Audited financial statements.

2. Proof of National Association of Securities Dealers (NASD) certification.

3. Proof of state registration.

4. Completed broker/dealer questionnaire.

5. Certification of having read and understood and agreeing to comply with the City of Beaumont's Investment Policy.

The City on an annual basis submits a copy of the current investment policy to all financial institutions approved to do business with the City. Confirmation of receipt of this policy is considered evidence that the dealer has read and understands the City's investment policy and will recommend and executive only transactions suitable for and in compliance with the City's Investment Policy.
In selecting financial institutions for deposit or investment of City funds, the creditworthiness of the institutions will be considered. The City will continue to monitor financial institution's credit characteristics and financial history throughout the period in which City funds are deposited or invested. The City is authorized by the City Council to conduct investment transactions with the following institutions.

1. State of California Government. Office of the State Treasurer, Local Agency Investment Fund (LAIF).

2. Banks. Citibank and Bank of Hemet.

Authorized ~~Financial Dealers and Institutions~~ Investments

The City is authorized by California Government Code Section 53600, *et.seq*. to invest in specific types of securities. Section 43601 of the Government Code sets limits on the type investments that may be in the City portfolio.

30% in Medium-Term Notes
40% in Negotiable Certificates of Deposit.
40% in in Bankers Acceptance Notes, not to exceed 180 days in maturity.
30% in Commercial Paper, not to exceed 270 days.
100% in U.S. Government Treasury Obligations.
100% in U.S. Government Agency Debt Issues.
100% in Pass-Book Savings Deposits.

The City Council may establish further limits on the types of securities in which the City may invest its idle cash, Any investment security (except investment of bond proceeds as explained in the next section) not listed below is not a valid investment for the City of Beaumont.

1. Local Agency Investment Fund (LAIF) Investments. LAIF is a special fund of the State of California Treasury that local agencies may use to deposit funds for investment. Investments by the State Treasurer for City funds in LAIF are authorized by the City Council.

State law prohibits LAIF from impounding any depositor's funds and prohibits the fund from ever declaring bankruptcy. Total investments of any one public agency in LAIF may not exceed $20 million. Public entities are limited to 15 transactions per month per account. A minimum transaction is $10,000.

2. United States Debt Obligations. These investments would include U.S. Government direct obligations such as Treasury bills, bonds, notes and other certificates of indebtedness where the full faith and credit of the United States are pledged for payment of principal and interest.

3. United States Government Debt Obligations. These investments include obligations, participations or other instruments of, or issued by, a Federal Agency or a United States government-Credit Bank (FFCB) or other obligations or other instruments issued by, or fully guaranteed as to principal and by the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association (FNMA). While these U.S. Government debt issues are not backed by the full faith and credit of the United States, they do in fact have defacto backing from the Federal Government, and it would be most unlikely that the government would let any of these agencies default on its obligations.

4. Repurchase Agreements. These agreements would be limited to U.S. Government or its authorized Agencies' securities described in Number 2 and Number 3 above, provided that they are held less than a year.

5. Certificates of Deposit (CD). A Certificate of Deposit (CD) is a time deposit with a specific maturity evidenced by a certificate. Certificates of Deposit must e issued through financial institutions insured by the Federal Deposit Insurance Corporation (FDIC), a federal agency of the United States Government that insures bank deposits up to $100,000 per account.

6. Pass Book Savings Account Demand Deposits. Savings accounts are hereby approved by the Beaumont City Council provided they are maintained only with banks and savings and loan institutions which are insured by the Federal Deposit Insurance Corporation (FDIC), a federal agency of the United States Government that insures bank deposits up to $100,000 per account.

7. Overnight Repurchase Agreements. The City is authorized by the City Council to set up a "sweep account" and to enter into an overnight repurchase agreement with an authorized bank to sweep cash from its checking accounts and other appropriate accounts to earn overnight interest on funds in these funds.

8. Zero Coupon Bonds. Zero Coupon Bonds may be purchased only for the purposes of bond defeasance.

Investment of Bond Proceeds

The City directs the investment of proceeds in bonds or similar debt instruments issued as instructed in the bond indenture or similar investment documents. Securities authorized by the bond indenture or similar investment documents that are not authorized by the City's Investment Policy will be considered approved when the bond indenture or similar investment document is approved by the City Council. Bond reserve funds, escrow funds and any funds approved by the City Council may be invested in securities with maturity limits of five years or an appropriate longer period.

Investment Parameters

1. Diversification. Other than funds invested in U.S. Government debt obligations and the State of California Local Agency Investment Fund (LAIF), the City's remaining investment portfolio is diversified to avoid incurring unreasonable and avoidable risk regarding specific security types of individual financial institutions. Diversification is dividing investment funds among a variety of securities offering independent returns. LAIF is a special fund in the State Treasury which local agencies may use to deposit funds for investment. State law prohibits LAIF from impounding any depositor's funds and prohibits the fund from declaring bankruptcy.

2. Maximum Maturities. Section 53601 of the California Government Code allows the investment of City surplus funds in specific types of securities provided that, at the time of investment, the securities have a maturity date of five years or less, unless the legislative body has granted express authority to make that investment either specifically or as part of the Investment Policy approved by the legislative body, no less than three months prior to the investment. It is herein authorized as part of the current investment policy to invest in securities with an estimated average life of five years, but only when authorized by the City Council no less than three months prior to the investment.

3. Risk Tolerance. The City recognizes that investment risks can result from issuer defaults, market price changes or various technical complications leading to temporary liquidity. Portfolio diversification is employed as a way to control risk. The City displays prudence in the selection of securities as a way to minimize default risk. No individual investment transaction is undertaken which jeopardizes the total capital position of the overall portfolio. Funds invested in LAIF are considered consistent with this policy. In accordance with Governmental Accounting Standards Board Statement No. 3, the City's investment risk is divided into three categories:

> **A. Category 1.** Securities that are insured and registered or securities held by the City or its agent in the City's name.
>
> **B. Category 2.** Securities that are uninsured and unregistered with securities held by the counter party, or by its trust department or agent, but not in the City's name. This includes the portion of the carrying amount of any underlying securities.
>
> **C. Category 3.** Securities that are uninsured or unregistered with securities held by the counter party, or by its trust department or agent, but not in the entity's name. This includes the portion of the Carrying amount of any underlying securities.

4. Equal Opportunity. The City does not knowingly invest funds in an institution that practices or supports, directly or indirectly through its actions, discrimination based on race, religion, color, creed, nationality or ethnic origin, age, sex or disability.

5. Prohibited Investment Activities. This investment policy specifically prohibits trading securities for the sole purpose of speculating on the future direction of interest rates. It further prohibits investing in common stocks, using reverse repurchase agreements, use of derivative products, buying mortgage derived interest only strips, purchasing investments using margin accounts and/or leveraging of the City's investment portfolio.

Collateralization

Collateralization will be required on two types of investments: certificates of deposit and sweep checking accounts. In order to anticipate market changes and provide a level of security for all funds, the collateralization level will be 110% of market value of principal and accrued interest.

The City chooses to limit collateral to the following: certificates of deposit and sweep checking accounts held by an independent third party with whom the entity has a current custodial agreement. A clearly marked evidence of ownership (safekeeping receipt) must be supplied to the entity and retained. The right of collateral substitution is granted.

Safekeeping and Custody

1. Custody. To protect against potential losses by the collapse of individual securities dealers, all securities owned by the City shall be held in safekeeping by a third party bank trust department acting as agent for the City under the terms of a custody agreement executed by the bank and the City. No outside broker/dealer or advisor may have access to the City finds, accounts or investments, and any transfer of funds to or through an outside broker/dealer must be approved by the City Council.

2. Internal Control. A system of internal controls has been established to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or unanticipated changes in financial markets. Internal controls deemed most important include control of collusion, separation of transaction authority from accounting and record keeping, custodial safekeeping, avoid of physical delivery of securities, clear delegation of authority to subordinate staff members, written confirmation of transactions for investments and wire transfers and development of a wire transfer agreement with the lead bank and third-party custodian.

3. Delivery vs. Payment. All trades where applicable executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities are held by a third-party custodian as evidenced by safekeeping receipts.

Reporting

In accordance with Government Code Section 53646(8)(1), the City Treasurer shall submit to each member of the City Council a quarterly report. The report shall include a complete description of the portfolio, the type of investments, the issuers, maturity dates, par values and the current market values of each component of the portfolio, including funds managed for the City of Beaumont by third party contract managers. The report will also include the source of the portfolio valuation. As specified in Government Code 53646(e), if all funds are placed in the Local Agency Investment Fund (LAIF), FDIC insured accounts and/or county investment pool, the foregoing report elements may be replaced by copies of the latest statements from such institutions. The report must also include a certification that (1) all investment actions executed since the last report have been in full compliance with the investment policy, and, (2) the City of Beaumont will meet its expenditures obligations for the next six (6) months.

Investment Policy Adoption and Review

The City's independent certified public accountants annually review and make recommendations regarding the City's investment policies to the City Manager and City Council. In accordance with Senate Bill 564 and Senate Bill 866, effective January 1, 1996, the City staff brings forward each year the City's Investment Policy for review by the City Council.

Fixed Asset Policies

(Strike Outs and Italics are Proposed Amendments)

Introduction

The City of Beaumont's fixed asset policies are intended to provide specific guidance for determining which fixed assets are subject to separate accounting and reporting (i.e. capitalization). They also outline the procedures to define fixed assets and establish guidelines for their purchase, use, accountancy, inventory, transferring and disposal.

Scope

The City's fixed asset policies apply to all personnel, departments, divisions and offices of the City government as well as all associated accounting funds under the direct authority of the City of Beaumont. These accounting funds include, but are not limited to, the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds, Debt Service Funds, Capital Projects Funds, Private-Purpose Trust Funds and Agency Trust Funds. These fixed asset policies are also applicable to the City's blended component units, including the Successor Agency to the Beaumont Redevelopment Agency, Beaumont Utility Authority, Beaumont Conservation Authority and Beaumont Public Financing Authority.

Responsibility

The City Manager is ultimately responsible for the City's implementation and compliance with these policies, unless the City Council authorizes exceptions. Under the direction of the City Manager, the Finance Director will review, develop and implement a system of processes and procedures to ensure compliance with these policies throughout the entire organization. The City Manager will work with the Finance Director to ensure these policies are updated on a timely basis.

Purpose

The City's fixed asset policies and procedures are established in accordance with Generally Accepted Accounting Principles (GAAP) and statements issued by the Government Accounting Standards Board (GASB). The objectives of the City's fixed asset policies are to:

1. Appropriate Use and Control. Ensure that there is adequate control and appropriate use of the City's fixed assets for the delivery of municipal services and for the protection of the health, safety and welfare of the community.

2. Safeguarding and Preservation. Carry out the City's fiduciary responsibility to establish systems and procedures to protect its fixed assets acquired with taxpayer resources from loss, theft, misplacement or inappropriate use.

3. Accounting and Financial Reporting. Accurately account for and report fixed assets in financial reports issued to external reporting agencies, financial institutions, bond trustees, granting agencies and the public.

Definitions

The City of Beaumont will apply the following definitions to its fixed asset policies and procedures.

1. Buildings. Structures of a fixed or semi-fixed nature, which provide shelter and/or create interior space. Buildings also include picnic shelters, storage sheds and restrooms.

2. Construction in Progress. Assets that are being built that are not usable at the end of the fiscal year, such as an incomplete building, waterline, sewer line, storm drain line, street, road, traffic signal, or other public improvement or infrastructure.

3. Capital Expenditure. A capital expenditure is an outlay for fixed assets, including land, building, machinery, equipment, construction in progress, design in progress, improvements and infrastructure with an original cost of $5,000 or more.

4. Design in Progress. Capital improvement projects that are in planning or the design stage. The expenditure of these projects is capitalized at year-end if the design has exceeded $5,000.

5. Equipment. Moveable personal property with a useful life of more than one year and a value of $1,000 or more. Such items as furniture, machines, tools, vehicles, and computers are included in this category.

6. Fixed Asset. Tangible and intangible property owned by the City with a value of $5,000 or more and a useful life of at least one year.

7. Improvements. Physical property of a fixed nature that is added (affixed) to land or buildings. These assets include ground improvements, sidewalks, driveways, landscaping, sprinklers, fences, parking lots, etc. Building improvements include such items as carpeting, air conditioning systems or improvements through remodeling.

8. Infrastructure. Includes bridges, traffic signals, streets, roads, curbs, gutters, sidewalks, water lines, sewer lines and storm drain lines.

9. Intangibles. Items such as software (not replacement or upgrades).

10. Land. Includes the investment in real property or the ownership of ground space such as parcels, easements, and rights-of-way.

11. Streets and Roads. Includes all streets and roads that have pavement as well as curb, gutter and sidewalk.

12. Street Drainages. Includes storm drainage piping and manholes underneath streets and roads.

13. Traffic Signals. All traffic lighting systems that control traffic.

14. Vehicles. All vehicles and rolling stock equipment that are maintained by the Public Works Department or Community Services Department.

Capital Expenditure Definition and Capitalization Policy (Accounting and Financial Reporting)

Capital Expenditures for fixed assets, including land, buildings, machinery, equipment, construction in progress, design in progress, improvements and infrastructure with an original cost of $5,000 or more, will be subject to accounting and reporting (capitalization). All costs associated with the purchase or construction of the asset are part of the capitalization threshold including ancillary costs such as freight, transportation charges, site preparation expenditures, professional fees, warranties, taxes and legal claims directly attributable to the asset acquisition. Specific capitalization guidelines are described:

1. Capitalization Threshold. An exception to the $5,000 threshold is land and some infrastructure. All costs associated with the purchase or acquisition of land parcels, rights-of-way, or easements, are capitalized, regardless of cost.

2. Individual Units of Fixed Assets. The $5,000 capitalization threshold is applied to individual units of fixed assets. For example, ten desks purchased through a single purchase order, each costing $1,000, will not qualify for capitalization even though the total ($10,000) exceeds the capitalization threshold of $5,000.

3. Fixed Asset Components. For the purpose of capitalization, the threshold will generally not apply to components of fixed assets. For example, a keyboard, monitor and central processing unit purchased as components of a computer system will not be evaluated individually against the capitalization threshold. The entire computer system will be treated as a single fixed asset.

4. Grants. Any asset required to be controlled and separately reported pursuant to grant conditions or any other externally imposed reporting requirement, will be capitalized, regardless of cost. For example, a grant program that has funded the acquisition of a fixed asset may impose a requirement that the fixed asset be tracked and identified as a grant-funded asset.

5. Dedications and Donations. When an asset is acquired through dedications, donations, developer funding, or in-lieu of fees, the asset will be recorded at its estimated fair market value at the date of acquisition, as determined by the appropriate City department using an appropriate method to determine value.

6. Repairs and Maintenance. Repairs to existing fixed assets will generally not be subject to capitalization unless the repair extends the useful life of the asset. In this case, the repair represents an improvement and is subject to the capitalization requirements described below.

7. Improvements. Improvements to existing fixed assets will be presumed (by definition) to extend the useful life of the related fixed assets, and therefore, will be subject to capitalization only if the cost of the improvement meets the $5,000 threshold. Therefore, an improvement to a fixed asset that had an original cost of less than $5,000, but now exceeds the threshold as a result of the improvement, should be combined as a single asset at the total cost (original cost plus the cost of the improvement) and capitalized.

8. Capital Projects. Capital projects will be capitalized as "design in progress" or "construction in progress" until completed. The costs associated with the capital project include direct costs, such as labor and materials, as well as indirect and ancillary costs.

Capitalization Valuations

The objective fixed asset accounting is to account for the City's historical acquisition cost, not present market or replacement values of City fixed assets. Therefore, fixed assets are valued at historical cost. In those instances where historical costs are not available, fixed assets are valued at estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date donated. In valuating fixed assets the following guidelines are used.

1. Buildings. Costs include all expenditures in connection with their acquisition such as purchase price or construction cost, fixtures attached to the structure, architect's fees, engineering fees, and insurance during construction.

2. Construction in Progress. Assets are recorded in the same manner as assets acquired by purchase or construction contract. Costs that are capitalized are service charges, materials, and architects and engineering payments and retentions.

3. Design in Progress. Costs that are capitalized include service charges, materials and architects and engineering payments and retentions.

4. Equipment. Costs include all expenditures including the purchase price (before trade-in allowance) freight charges, taxes and installation costs.

5. Improvements. Costs include all expenditures in connection with their acquisition such as purchase price or construction costs, materials costs, installation costs, fixtures, architect's fees, engineering fees, freight charges, taxes and insurance during construction.

6. Infrastructure. Costs include all expenditures in connection with their construction including labor costs, material costs, installation costs, engineering fees, freight charges, sales taxes and insurance during construction.

7. Land. Costs include all expenditures in connection with land acquisition such as purchase price, appraisal fees, title policy fees, demolition, site clearance, etc.

8. Street Drainage. Costs include all expenditures in connection with their construction including materials costs, installation costs, engineering fees, freight charges, sales taxes and insurance during construction.

9. Streets and Roads. Costs include all expenditures in connection with their construction including material costs, installation costs, engineering fees and insurance during construction.

10. Traffic Signals. Costs include purchase price, freight charges, taxes and installation charges.

11. Vehicles. Costs include purchase price, sales tax, freight charges and installation costs.

Depreciation

1. Principles and Guidelines. The purpose of depreciation is to spread the cost of fixed assets equitably among all users over the life of these assets. The amount charged to depreciation expense each year represents that year's pro rata share of the cost of the fixed asset.

General Accounting Standards Board (GASB) Statement 34 requires that all capital assets with limited useful lives be depreciated over their estimated useful lives. Alternatively, the "modified approach" may be used for certain capital assets. Depreciation is not provided under this approach, but all expenditures for these assets are expensed, unless they are additions or improvements.

Except for streets and roads covered by the "modified approach," depreciation is booked on fixed assets. Depreciation of all fixed assets is charged as an expense against operations each year. The total amount of depreciation taken over the years, called accumulated depreciation, is reported on the balance sheet as a reduction in the book value of the fixed assets.

Depreciation is used solely in Proprietary Fund Types. Depreciation is important in these funds because it is included as an operational expense of these funds. Unlike Governmental Fund Types, fixed assets are reported in the balance sheet accounts of each Proprietary Fund. The use of these assets over a period of time is charged as a depreciation expense.

2. Depreciation Method. Depreciation is provided using the straight line method which means the cost of the asset is divided by its expected useful life in years and the result is charged to expense each year until the asset is fully depreciated.

3. Estimated Useful Life. The estimated useful life of an asset will vary depending on the type of fixed asset that is being depreciated. The useful life for various fixed assets are indicated below:

Buildings	40-50 Years
Infrastructure	40-50 Years
Street Drainage	40-50 Years
Curb, Gutter and Sidewalk	40 Years
Traffic Signals	20 Years
Furniture, Fixtures & Vehicles	4-5 Years
Machinery and Equipment	2-20 Years

Inventory Control Policy

1. Inventory Control Criteria. Inventory control is applied only to movable fixed assets and not to land, buildings or other immovable fixed assets. Fixed assets subject to inventory control will be accounted for and controlled through the same systems and procedures used to account and control fixed assets subject to capitalization. Fixed assets will be subject to inventory control if they meet at least one of the following criteria:

A. The fixed asset has a useful life that exceeds one year.

B. The original cost of the fixed asset is equal to or greater than $5,000.

C. Any asset less than $5,000 as requested from a department. This may include certain machinery and equipment that, due to their portability, character or value outside of the office are susceptible to loss, theft, misplacement or borrowing. It may also include any asset that has been requested by a department to be controlled in order to satisfy an internal (operational) or external federal or state regulatory requirement.

D. Any asset required to be controlled and separately reported pursuant to grant conditions or any other externally imposed reporting requirement. For example, a grant program that has funded the acquisition of a fixed asset may impose a requirement that the fixed asset be tracked and identified as a grant funded asset.

2. Annual Review and Certification. Each Department Head holds ultimate responsibility for safeguarding their fixed assets against theft or loss. At the end of each fiscal year, the Finance Department will forward to each department a listing of their fixed assets for review and certification. It is the responsibility of the Department Head to verify and certify the accuracy of the information contained on that report. Any discrepancies must be reported to the Finance Department.

3. Fixed Asset Report. All departments involved in the construction or dedication of improvements or infrastructure assets must complete a fixed asset report when filing a Notice of Completion or Acceptance. The report must be forwarded to the Finance Department for inclusion in the City's fixed asset data base and the City's engineers for inclusion on the City's Geographic Information Systems (GIS) data base.

4. Transfers of Fixed Asset. Requests for transfers of fixed assets will be in writing and submitted to the Finance Department and City Manager for approval. The Finance Department will be responsible for making the appropriate transfers on the City's computerized Fixed Asset data base and keeping a file of all transfers.

Disposal of Fixed Assets

1. Disposal Authority. No fixed assets may be disposed of without the approval of the City Council or the City Manager and Finance Department. Disposal of all land and buildings and all other fixed assets with a value of over $5,000 must have City Council approval. If it is determined that the fixed assets sold as a unit has a value less than $5,000, the property may be disposed of in a manner approved by the Department Head, Finance Department and the City Manager. Fixed assets will only be disposed of after checking with other City departments to see if they can use the property.

2. Disposal Value. It is the responsibility of each department to appraise fixed assets designated as surplus prior to sale.

3. Disposal Methods. Fixed Assets may be disposed of in the following ways:

A. Sealed bids after at least three public notices have been published in the newspaper.

B. Public auction after at least three notices have been published in the newspaper.

C. Traded in to reduce the purchase price of a new replacement for a fixed asset.

D. Taken to a federal or state surplus property facility and sold through that facility.

E. Sold or donated to another government agency.

F. Recycled and disposed of as junk to a landfill or other appropriate waste removal facility.

G. Other method approved by the City Council or the City Manager where it is believed that the highest price can be obtained for the fixed asset. The City Council or City Manager will determine the most appropriate method of disposing of fixed assets.

4. Proceeds from Sales and Auctions. All proceeds from the sale of fixed assets will be allocated to the City's General Fund unless the property was originally purchased with monies from a specific City Accounting Fund, in which case, the proceeds will be returned to that specific Accounting Fund.

Capital Improvement Project Policies

(Strike Outs and Italics are Proposed Amendments)

Introduction

The Capital Improvement Plan (CIP) outlines a schedule of public service expenditures. The CIP does not address all of the capital expenditures for the City, but provides for large, physical improvements which are permanent, including the basic facilities, services and installations needed for the functioning of the community. These include utilities, municipal facilities and other miscellaneous projects. A capital improvement project is an investment of public and/or private funds of at least $25,000. Capital improvement project policies ensure that limited capital improvement funds are expended efficiently, effectively and provide the maximum public benefit.

Scope

The City's capital Improvement project policies apply to all personnel, departments, divisions and offices of the City government as well as all associated accounting funds under the direct authority of the City of Beaumont. These accounting funds include, but are not limited to, the General Fund, Special Revenue Funds, Enterprise Funds, Internal Service Funds, Debt Service Funds, Capital Projects Funds, Private-Purpose Trust Funds and Agency Trust Funds. These capital improvement policies are also applicable to the City's blended component units, including the Successor Agency to the Beaumont Redevelopment Agency, Beaumont Utility Authority, Beaumont Conservation Authority and Beaumont Public Financing Authority.

Responsibility

The City Manager is ultimately responsible for the City's implementation and compliance with these policies, unless the City Council authorizes exceptions. Under the direction of the City Manager, the Finance Director will review, develop and implement a system of processes and procedures to ensure compliance with these policies throughout the entire organization. The City Manager will work with the Finance Director to ensure these policies are updated on a timely basis.

New Construction

New residential, commercial and industrial developments must be approved by the City Engineer and be fully completed before acceptance by the City. The City requires surety bonds or stand-by letters of credit in a form approved by the City Attorney to guarantee the construction of off-site improvements in all new developments. The improvements that must be installed in each development are water lines, sewer lines, flood control facilities, underground electrical lines, underground telephone lines, underground natural gas lines, underground cable television lines, curbs, gutters, sidewalks and a finished street, with enough road base and asphalt depth to last at least 15 years. Construction standards to achieve this useful life have been determined and adopted by the City.

Capital Project Funding and Construction Categories

Beaumont capital projects may be divided into four categories. They are current-year funded projects, Five-Year Capital Improvements Plan (CIP) projects, planned, but unfunded projects, and unfunded future needs projects.

1. Category 1 Projects: Current -Year Funded Projects. This category includes projects that funding has been appropriated in the current fiscal year's capital budgets and legal contracts have been signed to commit these funds. The City Council has determined through the annual budgeting process that these projects are in the best interest of the public's health, safety and welfare. These projects have been carefully planned to maximize the benefits derived through the use of the City's limited resources. Projects that generate future revenues that will fund future services and projects and benefit the entire community will receive first priority for funding.

2. Category 2 Projects: Five-Year Capital Improvement Plan (CIP) Projects. This category includes projects where funding will come from projected revenues in the second through fifth year of the Five-Year Capital Improvements Plan (CIP). The fiscal year in which anticipated funding has been reserved may change due to the available revenues. All projects in this category must be tied to a projected funding source.

3. Category 3 Projects: Planned but Unfunded Projects. This category includes projects that are planned and required to maintain established levels of services throughout the City for the existing population. Typically these projects are needed as a result of deteriorating infrastructure, updates to various General Plan Elements, or are in areas where minimum levels of service are not currently being met. These projects are not intended to promote residential growth, but to sustain municipal services for the existing residents. If a funding source becomes available, a project in this category may be moved to a Category 2 Project.

4. Category 4 Projects: Unfunded Future Needs Projects. Projects under this category are a condition of future growth and will generally be included in undeveloped areas. It is the intent of the City that development should pay for public improvements to meet established minimum levels of service. In this category, projects are not anticipated to be upgraded to a higher category without revenue generating potential.

Capital Project Financing

Capital improvements and equipment purchases are financed in accordance with the following policies:

1. General Fund and Enterprise Fund Equipment Purchases. City departments within the General Fund will finance equipment purchases from current year appropriations. Multi-year equipment lease-purchase agreements will be avoided except in rare of cases.

2. General Infrastructure Construction Projects. Capital projects for general governmental purposes such as land purchases, building construction, road construction, street paving, storm drain installation and other major improvements are financed from revenues allocated to the General Capital Projects Fund. The General Capital Projects Fund contains revenues from unrestricted sources as well as restricted sources such as development impact fees or federal, state and county grants. Major capital improvements that cannot be delayed until the required funds are accumulated may be financed by issuing general obligation bonds, revenue bonds (where permissible), or by a combination of any of these methods.

3. Enterprise Fund Construction Projects. All capital projects in the Enterprise Funds are paid from resources provided by development impact fees, contributed capital revenues and net income from operations. If these sources cannot provide sufficient resources for Enterprise Fund improvements, construction of these improvements may be financed by general obligation bonds, revenue bonds or by a combination of any of these methods.

4. Special Assessment Districts. Capital improvements or public services that benefit a given area may be financed in accordance with state law by special assessment districts. These districts are established where the majority of the residents or businesses want specific improvements or public services and consent to pay for them over time. In these cases the City finances the specific capital improvements with bonds and public services through a special tax or special annual assessment. Property owners then pay the principal and interest for capital improvements over a designated time period.

Five-Year Capital Improvements Plan

The Five-Year Capital Improvements Plan (CIP) is a multi-year guide to the construction of community improvements such as roads, storm drains, curbs, gutters, sidewalks, water facilities, sewer facilities, storm drainage facilities and other needed City improvements. It is through this process that the long-range plan for the orderly maintenance and improvement of Beaumont physical fixed assets can be accomplished. This document is intended to serve as a planning tool and is structured to present a meaningful perspective of the community's long-range needs.

The Five-Year Capital Improvements Plan (CIP) determines the budgeted capital projects for the current fiscal year only. There are no specific appropriations established via the adoption of the Five-Year Capital Improvements Plan (CIP) with the exception of the current fiscal year. Subsequent year appropriations and actual funding sources are identified as part of the preparation of the annual budget.

Utility Coordination

All capital construction and maintenance projects are coordinated with Southern California Edison, The Gas Company, Time-Warner Communications, Beaumont Water District and other utilities. This saves Beaumont residents money and will avoid tearing out improvements after they have been installed.

Five-Year Capital Improvements Plan (CIP) Preparation

Each department is asked every year to identify potential capital projects and their estimated cost. Financial forecasts for the General Fund, Special Revenue Funds and Enterprise Funds are then prepared to identify what monies will be available for future projects. Projects that cannot be funded from money generated through the general course of business must be financed with development impact fees, grants, bonds or must be postponed or cancelled.

During the City Council budget work sessions, potential capital projects are discussed enabling the City Council to review staff recommended projects and make any necessary changes. When consensus is reached on the capital projects and proposed funding sources, the staff will prepare a formal Five-Year Capital Improvement Plan (CIP) document that will be presented to the City Council. The adoption of this document commits the City Council to spend money on projects listed in the current fiscal year only.

The City can face significant changes in economic conditions, funding sources and political priorities every year. Therefore, the Five-Year Capital Improvements Plan (CIP) must be annually updated.

Capital Project Priority Criteria

Capital projects are prioritized using revenue generating and cost avoidance considerations; health, safety and welfare considerations; level of service considerations; maintenance considerations; aesthetic considerations; and leverage and timing considerations.

1. Revenue Generating and Cost Avoidance Considerations. Projects that enhance revenues or reduce costs will be given first priority in order to improve the financial position of the City and enhance the ability to do future projects or deliver high levels of municipal services. New commercial, residential and industrial development must pay for its infrastructure either by constructing these items or paying impact fees.

2. Health, Safety and Welfare Considerations. One of the primary purposes of government is to provide for the health, safety and welfare of its citizens. The City must provide safe drinking water, safe streets, safe sidewalks as well as adequate police protection, solid waste disposal, and storm water disposal and treatment of municipal sewage.

3. Level-of-Service Considerations. Many older City developments were constructed decades ago and many newer developments do not meet minimum levels of service as established by the federal government, state government, City government or generally accepted engineering standards.

4. Maintenance Considerations. All public improvements must be maintained after the construction is completed. Maintenance staffing and equipment are critical elements that must be considered in project prioritization and must be funded on an on-going basis with revenue sources other than capital improvement funding. The nature of some projects may cause a reduction in maintenance.

5. Aesthetic Considerations. Community appearance and aesthetics are important elements in the quality of life in the community. City aesthetics and appearance helps attract new residential, commercial and industrial developments to the City. Beaumont has buildings and public infrastructure that need to be replaced and upgraded to create a more attractive community.

6. Leverage and Timing Considerations. Projects that may be funded by entitlement grants or competitive grants from the federal, state and county governments will be considered based on the availability of funds and the requirements of the granting agency. In addition, the City Council may accelerate capital projects where the City has the opportunity to participate in partnership with other public or private entities or where timing is critical or funding may be lost.